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SUBJECT: MERMOUD DISCUSSES PUBLIC-PRIVATE PARTNERSHIP INITIATIVE  
WITH KAZAKHSTANI GOVERNMENT, BUSINESS

Ref: Astana 1243

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1. (SBU) Summary. In September 3-5 meetings with leaders of Kazakhstan's government and business, Special Representative for Commercial and Business Affairs J. Frank Mermoud discussed the planned October 22 Washington inauguration of the bilateral U.S.-Kazakhstani Public Private Partnership Initiative (PPPI) and the direction the Initiative should take. S/R Mermoud's interlocutors reacted favorably to the proposed Initiative, hailing its focus on improving Kazakhstan's investment climate as well as its potential role in strengthening business, investment, economic, and educational links between the U.S. and Kazakhstan. In particular, Prime Minister Masimov welcomed the idea of discussing "tough issues" that negatively impact Kazakhstan's business environment. Masimov also assured S/R Mermoud that he will assist in achieving speedy resolution of two current hurdles on the bilateral economic front: the double-taxation Parker Drilling dispute and the Kazakhstani Customs Committee's newly introduced requirement for export declarations, an unintended consequence of which is prevention of entry of U.S. goods into Kazakhstan. End summary.

2. (SBU) S/R Mermoud met with the following representatives of the Kazakhstani government and business sector:

September 3 (Almaty):

- Raimbek Batalov, President of the Forum of Entrepreneurs
- Nurlan Kapparov, President of KazInvest Bank

September 4 (Almaty):

- Dennis Price, General Director of "Sayran" (a subsidiary of Kazakhstani construction conglomerate "Kuat"), and former head of Kazakhstan's Foreign Investors' Council (representing Access Industries)
- Gregory Vojack, Managing Partner - Bracewell & Giuliani, Central Asia
- Kenneth Mack, President of the American Chamber of Commerce, Partner - Chadbourne & Parke
- Mukhtar Ablyazov, Chairman of the Board - Bank Turan Alem
- Alexander Deriglazov, CEO - Meloman Ltd.

September 5 (Astana):

- Azat Peruashev, Chairman - National Economic Chamber "Union Atameken"
- Serik Akhmetov, Minister of Transport and Communications
- Natalya Korzhova, Minister of Finance (with Nurlan Rakhmetov, Chairman of the Tax Committee)
- Karim Masimov, Prime Minister
- Kayrat Kelimbetov, Chairman - Kazyna Sustainable Development Fund.

## The Initiative - the Government Perspective...

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13. (SBU) S/R Mermoud's discussions on the focus of the soon-to-be-inaugurated bilateral U.S.-Kazakhstani Public-Private Partnership Initiative followed his meetings in April (reftel). The Initiative's stated focus on addressing the key problems in the Kazakhstani business environment (particularly corruption), facilitating the Kazakhstani government's (GOK) goals of increasing economic competitiveness and diversifying away from energy, and strengthening links (including educational) between the two countries' private sectors was broadly welcomed by GOK officials, as well as by executives of Kazakhstani companies and U.S. companies operating in Kazakhstan. Prime Minister Masimov said he plans to attend the October 22 PPPI inauguration in Washington and was receptive to the idea of an open discussion of the problems plaguing Kazakhstan's business environment. "It is important to address the tough issues," stated Masimov, adding that the discussion "should not be sweet." Masimov added that he would like to make his October trip to the U.S., his first as a prime minister, a strong demonstration of the importance of U.S.-Kazakhstani relations and of Kazakhstan's affinity for western standards. Transport Minister Akhmetov drew links between the PPPI and Kazakhstan's domestic public-private partnership program, "the Thirty Corporate Leaders" (announced earlier this year, see reftel), stating, "we do need feedback from the private sector" and adding that he would be "grateful for the invitation" to the PPPI inauguration.

## ...And the Private Sector View

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14. (SBU) Raimbek Batalov, President of the Almaty-based Forum of Entrepreneurs (as well as a prominent businessman, heading the "Raimbek Group," a large retail chain), was strongly supportive of the Initiative. He outlined three prerequisites for the Initiative's success:

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- The idea should be embodied into a program ("we are ready to work on this," Batalov added);
- Relevant business associations should be brought in (citing the Forum and Atameken [see below])
- Financing needs to be arranged (calling this issue "a sore point," since Kazakhstani associations and the business sector are "still young" and suggesting a combination of government support, self-financing, and corporate financing).

15. (SBU) Batalov also drew parallels between the thrust of the Initiative and his Forum's priorities. The Forum, he said, currently focuses (i.e. produces research and analysis) on the following issues:

- Struggle with corruption
- Social responsibility of small- and medium-sized enterprises (SMEs)
- Mini-MBA (training for small business)
- Transit corridors
- Trans-border trade
- Tax & customs

Batalov added that Kazakhstan is currently facing a "crisis" in the lack of skilled labor: there are "lots of lawyers and economists but very few welders and machine operators."

16. (SBU) Batalov cited a number of examples of the government's "clumsiness," particularly the recent (and ongoing) aftermath of the Customs Committee's introduction of an export declaration requirement for goods entering Kazakhstan (see paragraph 15). He also mentioned the implementation, by the Ministry of Industry and Trade, of the "made in Kazakhstan" stamp. Each stamp, according to Batalov, costs KZT 3-4 (2.5-3.5 cents) to produce; the Ministry, however, has failed to print enough stamps, leading to 2.5 month delays for importation of some products, such as alcohol beverages. Another recent example, Batalov continued, is the Environment Ministry's new requirement for all automobile owners to fill out a declaration form on the condition of his vehicle. As a result, Batalov said, "huge queues can be expected."

¶7. (SBU) Batalov clearly saw a strong nexus between the Forum's work and the PPPI's priorities. He expressed genuine regret about being unable to attend the October 22 inauguration due to a long-standing personal commitment and proposed sending to the event his deputy, the Forum's Executive Director, instead. Finally, he sounded a cautiously optimistic, if mixed, note about his Forum's coexistence with the "Union Atameken" (recently rechristened from a "Union of Entrepreneurs" into a "National Economic Chamber"). Although, Batalov said, Atameken is still using "uncompetitive" means to secure for itself the official status of a national trade chamber, a "division of labor" of sorts is emerging between the Forum and the Atameken. The former, Batalov said, focuses on small- and medium-sized enterprises; the latter is an umbrella organization for various business associations and large companies.

¶8. (SBU) Atameken's Chairman Peruashev expressed a very strong interest in developing links with the U.S. business community in general and participating in the PPPI specifically. Although Atameken is often seen as a semi-official, instinctively pro-government association (talking to Atameken, said Bank Turan Alem's (BTA's) Ablyazov, is "like talking to a government official"), Peruashev did express criticism toward some of the government's economic policies. The bulk of this criticism fell on development institutions: "There is a growing view in the business community that development institutions are crowding out the real private business, because they are doing business themselves." Peruashev made it clear that his intended target was Kazyna, as he went on to bemoan some of Kazyna's development institutions' excessive focus on short-term profitability at the expense of innovation. "We know," he said, "how development institutions operate in Russia and eastern Europe. We would like to learn how they operate in western Europe and the U.S." Peruashev welcomed S/R Mermoud's suggestion to facilitate Kazakhstan-U.S. private sector discussions by engaging Atameken with AmCham. (Comment: While Atameken still appears to be a bloated, government-affiliated organization, there is a discernible and welcome shift in its willingness to offer criticism of Kazyna's (i.e. the government's) investment policy. End comment.)

¶9. (SBU) Peruashev portrayed Atameken as a liaison of sorts between business and the government. The organization, he explained, makes legislative proposals, particularly in the tax, customs, and agricultural arenas. Other concerns include corruption; "raidership;" government interference in business; and administrative burdens for opening, running, and closing a business. Peruashev also said that Atameken helps support actual projects by Kazakhstani entrepreneurs by "bringing" such projects to development institutions. Finally, while he never actually acknowledged the Forum of Entrepreneurs, Peruashev echoed Batalov by stating that

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Atameken's focus is on medium-sized and large business.

¶10. (SBU) Ken Mack of the (Kazakhstan-based) American Chamber of Commerce expressed great enthusiasm for the PPPI as a vehicle for addressing the problems of the Kazakhstani business climate. He stated his opinion that corruption is "the number one problem, the root of all the other ones." Mack told S/R Mermoud that he has been pursuing with Batalov the idea of a joint AmCham-Forum of Entrepreneurs paper, which he hopes to have ready by the October 22nd PPPI inauguration. This paper, Mack said, will go into detail on how corruption is damaging the economy and provide ideas on how it can be stemmed.

¶11. (SBU) Other representatives of the private sector also welcomed the PPPI's goal of raising the difficult issues and shedding light on the obstacles to business development in Kazakhstan. "Another voice would be helpful; in this culture persistence pays off," stated Dennis Price (of Kuat). Ablyazov of BTA bemoaned the lack of democratic institutions, particularly of a vibrant media, of regional officials' accountability (via elections), and of a strong judiciary. He identified these deficits as the root causes of corruption and portrayed the government's efforts against corruption as window dressing. Ablyazov endorsed the PPPI's focus on corruption, stating, "the more comments like these, the more they

affect our government... But the real change will come when business penetration is such that people have something to lose and something to defend." He added, however, that as the governing elite acquires its own businesses, its interests are becoming more similar to those of business, leading to an "evolutionary change."

#### The "Thirty Corporate Leaders:" Kazakhstan's Domestic PPP

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¶12. (SBU) Private sector representatives expressed some optimism about the GOK's recently launched domestic public-private partnership program, known as "the Thirty Corporate Leaders." Batalov called it "not a bad idea." The plan, he explained, is to quickly launch large projects, which would then "pull up" medium-sized companies. "Of course," Batalov mused, "a lot of our ideas start out well," strongly implying that implementation tends to be the problematic part. Ablyazov sounded decidedly positive on the program, which he described as a mechanism that forces bureaucrats ("from above") to assist business development (in lieu of democratic pressure acting "from below"). Ablyazov stated that even if only ten successful projects emerge from the program, it will still be a major success. "I believe that in ten years," he stated, "this will be a diversified economy." Nurlan Kapparov of KazInvest Bank sounded equally positive. The program, he said, facilitates close interaction between business and the president on a group basis (instead of on individual basis "like before"). Although the program does not focus on solving problems for all businesses (beyond the chosen thirty or so), it at least initiates the conversation in that direction. "You do thirty half-billion dollar projects," summed up Kapparov, "and you've diversified the economy."

#### East-West: The Way Ahead?

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¶13. (SBU) A theme featuring in several of S/R Mermoud's discussions was the prospect of establishing an East-West corridor across Kazakhstan for transportation of goods from China to Europe. Kapparov stated that such a corridor must bypass Russia, which has its own shared border with China and is, therefore, a "competitor." The corridor, he explained, would rely on four terminals: in western China, on Kazakhstan's Chinese border, on Kazakhstan's Caspian coast, and on Georgia's Black Sea coast. The total cost of the project, Kapparov said, would be \$1.5-2.0 billion. Ablyazov trumpeted the same idea which, he said, makes sense both politically and economically due to Russia's "inflexibility." The corridor, he said, would reduce the transportation time of Chinese goods to Europe by 5-6 days (compared to the current sea route) as well as lower the cost. According to Ablyazov, the GOK has already included the transport corridor project into its "Thirty Corporate Leaders" program.

¶14. (SBU) Although Transport Minister Akhmetov did not mention the East-West corridor, he spoke extensively about transportation infrastructure development plans, which appeared consistent with building such a corridor. He mentioned the development of Caspian ports, holding tenders for construction of railroads, and building toll highways (pointing out that these would likely be the first such highways in the CIS). "We have huge territory and are landlocked. Development of railroads and highways is very important to us," said Akhmetov, adding that he sees opportunities for involvement by U.S. companies in the development of various infrastructure and logistical projects. S/R Mermoud suggested

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consideration of north-south transportation links, particularly to Afghanistan, in addition to the East-West corridor.

¶15. (SBU) Kazyna's Chairman Kelimbetov did provide an indication of some Kazakhstani interest in developing regional north-south economic links. Kazyna, Kelimbetov said, is looking at creation of joint investment funds with Kyrgyzstan and Tajikistan (each with the starting capital of about \$100 million). He added that Kazyna is also considering setting up a joint equity fund with Afghanistan but called this project "terribly difficult." At the same time, Kelimbetov noted, Kazyna is looking to create a joint investment

fund with Russia, with a starting capital of \$1 billion.

#### Customs and Taxes: the Latest Sagas

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¶16. (SBU) Prime Minister Masimov assured S/R Mermoud that the two issues currently affecting U.S. commercial interests in the areas of customs and taxation are "within [his] competence]" and should soon be resolved. Commenting on the long-standing Parker Drilling dispute under the bilateral U.S.-Kazakhstani tax treaty, Finance Minister Korzhova appeared to portray this as an isolated case and not a negative signal about Kazakhstan investment climate. The more recent customs problem emerged on August 26, when the Customs Committee (which operates under the aegis of the Ministry of Finance) abruptly introduced a requirement for submission of export declarations for goods entering Kazakhstan. Since U.S. regulations prohibit submission of such declarations, the inflow of U.S. goods into Kazakhstan abruptly stopped. Moreover, new customs regulations appear to have briefly prevented entry of hard currency into the country, leading to a momentary, panicky sell-off of the tenge. Ablyazov called the episode "an example of state institutions malfunctioning." Batalov commented wryly, "in 'normal' countries, such measures - if enacted - are well-announced." S/R Mermoud noted to Prime Minister Masimov the importance of resolving both of these issues prior to the October 22 inauguration of the bilateral Initiative.

#### Additional Engagement and Advocacy

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¶17. (SBU) S/R Mermoud encouraged further U.S.-Kazakhstani public-private engagement on several fronts. He suggested to Prime Minister Masimov the possibility, schedule permitting, of arranging a New York Stock Exchange "bell-ringing" during the latter's October visit to New York; Masimov responded favorably. S/R Mermoud also recommended that Tax Committee Chairman Rakhmetov engage in dialogue with AmCham to facilitate a direct exchange of views and help ensure that foreign investors' concerns on taxation are addressed by the policymakers. Rakhmetov accepted the idea. Further, S/R Mermoud encouraged the CEO of Meloman, a pioneer Kazakhstani conglomerate importing licensed DVDs and CDs from the U.S. to Kazakhstan, to engage with AmCham.

¶18. (SBU) S/R Mermoud advocated on behalf of Boeing in his discussions with Prime Minister Masimov and Transport Minister Akhmetov. (Note: Air Astana, Kazakhstan's de facto domestic airline, is considering purchasing wide-body aircraft. End note.) Masimov and Akhmetov praised Boeing but were non-committal in their responses. S/R Mermoud suggested to Masimov the possibility of having a signing ceremony with Boeing during his October trip to the U.S.

#### Comment

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¶19. (SBU) Comment. Some of S/R Mermoud's more outspoken interlocutors astutely pointed out that the development of democratic institutions is the surest means of stemming corruption that is poisoning Kazakhstan's otherwise attractive business environment. At the same time, there was a broad consensus that the proposed bilateral Public-Private Partnership Initiative can serve as an effective mechanism for addressing the difficult issues and promoting reform. Combining the tough discussions with appropriate "sweeteners" - such as business and educational exchanges and, particularly, face time with potential U.S. investors - is likely to pique Kazakhstani interest and make the GOK more receptive to constructive criticism. End comment.

¶20. (U) This cable has been cleared by Special Representative Mermoud.

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